

Message Text

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15

ACTION EB-06

INFO OCT-01 EUR-12 ISO-00 AGR-10 AID-05 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 RSC-01 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-03 SIL-01 OMB-01 NSC-05 SS-15

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TO SECSTATE WASHDC 9905

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY OSLO

AMEMBASSY HELSINKI

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

USMISSION OECD PARIS

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E.O. 11652: N/A

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SUBJECT: RECESSION IN DENMARK

BEGIN SUMMARY. ACCORDING TO INDUSTRY REPORTS
AND FORECASTS, DENMARK IS NOW EXPERIENCING DE-
CLINING PRODUCTION AND EMPLOYMENT FOR THE THIRD
CONSECUTIVE QUARTER. WITH YIELDING DEMAND IN
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BOTH DEMESTIC AND EXPORT MARKETS, STOCKS ARE

MOUNTING, AND BUSINESS HAS BEGUN TO CUT DOWN ON INVESTMENT PLANS. THE RECESSION HAS NOT, HOWEVER, REDUCED THE RATE OF INFLATION WHICH IS CURRENTLY AT 17 PERCENT. END SUMMARY.

1. INDUSTRY REPORTS AND FORECASTS COLLECTED AND ANALYZED BY THE DANISH BUREAU OF STATISTICS SHOW THAT THE DECLINE IN PRODUCTION AND EMPLOYMENT WHICH STARTED DURING THE SECOND QUARTER OF THIS YEAR BECAME MARKEDLY MORE PRONOUNCED IN THE THIRD QUARTER AND IS CONTINUING IN THE LAST QUARTER. UNEMPLOYMENT IS SHOWING DRAMATIC GROWTH FROM THE FULL EMPLOYMENT LEVELS IN 1972-73 AND EARLY 1974 TO OVER 4 PERCENT IN SEPTEMBER (IN TERMS OF TOTAL LABOR FORCE, SEASONALLY ADJUSTED). PRELIMINARY WEEKLY COUNTS INDICATE THAT IT MAY EXCEED 5 PERCENT IN OCTOBER.

2. THE RECESSION WAS INFLUENCED AT ITS EARLY STAGES BY DECLINING DOMESTIC DEMAND, PROMINENTLY FROM SHARPLY REDUCED ACTIVITY IN BUILDING AND CONSTRUCTION, BUT ALSO FROM YIELDING CONSUMER SPENDING. EXPORT DEMAND, WHICH EXPANDED IN THE FIRST HALF OF THE YEAR, RECENTLY HAS ALSO RECEDED, AND MANUFACTURERS REPORT RISING STOCKS OF BOTH FINISHED GOODS AND RAW MATERIALS.

3. BUSINESS INVESTMENT, WHICH ROSE SHARPLY IN 1973, CONTINUED TO EXPAND IN THE FIRST HALF OF 1974, THOUGH AT A SLOWER RATE THAN FORECAST, BUT TURNED DOWNWARD IN THE THIRD QUARTER. PLANNED INVESTMENT WAS CORRESPONDINGLY CURTAILED.

4. MOST RECENT BUSINESS FORECASTS REFLECT HOPES THAT EXPORT MARKETS WILL BECOME STABILIZED AND THE PRODUCTION DECLINE MODIFIED. BUSINESS STILL HOPES TO BRING DOWN INVENTORIES THOUGH SIMILAR HOPES EXPRESSED FOR THE PRECEDING THREE QUARTERS FAILED.

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5. DESPITE REDUCED DEMAND, THE DANISH RATE OF INFLATION REMAINS LARGELY UNAFFECTED AT A SIGNIFICANTLY HIGHER LEVEL THAN IN PRECEDING YEARS. CONSUMER PRICES DURING THE FIRST THREE QUARTERS OF 1974 WERE AN AVERAGE 15 PERCENT HIGHER THAN LAST YEAR WITH SEVERAL INDIVIDUAL MONTHLY RATES OVER 20 PERCENT. AT THE END OF THIRD QUARTER, PRICES WERE ABOUT 17 PERCENT UP ON A 12-MONTH

BASIS. PART OF THE PRICE RISE IS IMPORT BASED. COSTS OF IMPORTED RAW MATERIALS WERE UP 85 PERCENT IN THE FIRST QUARTER OF THE YEAR, ON A YEAR-TO-YEAR BASIS. WHILE THE IMPORT PRICE IMPACT WAS GRADUALLY REDUCED, IT BECAME STABILIZED IN THE THIRD QUARTER AT A LEVEL ABOUT 60 PERCENT OVER LAST YEAR AND THERE IS AT PRESENT NO INDICATION THAT IMPORT PRESSURE ON DOMESTIC PRICE LEVEL WILL BECOME FURTHER REDUCED.

6. AT THE SAME TIME, WAGE RISES PROCEED UNABATED BY THE HIGHER UNEMPLOYMENT RATES. ALTHOUGH THE RISE MAY HAVE PEAKED EARLIER THIS YEAR, INDUSTRIAL WAGES ARE STILL INCREASING AT AN ANNUAL RATE OF 20 PERCENT OR MORE. CONTRARY TO PRIOR YEARS, WHITE COLLAR SALARIES ARE FOLLOWING PACE CLOSELY WITH BLUE COLLAR WAGES.

7. IN THE CIRCUMSTANCES, PRIOR OFFICIAL ESTIMATES OF AN INFLATION RATE IN 1974 NOT MUCH HIGHER THAN THE 11 PERCENT REGISTERED IN 1973 NO LONGER HOLD. THE DANISH COUNCIL OF ECONOMIC ADVISERS CONCEDE THAT THE RATE OF INFLATION IN 1974 WILL EXCEED 15 PERCENT.
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